

Message Text

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ACTION EB-08

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SUBJECT: SELECTED ECONOMIC-FINANCIAL INDICATORS

REF: BRASILIA 5410

1. TRADE DEFICIT IN 1ST SEMESTER-BRAZIL REGISTERED A CUMULATIVE TRADE DEFICIT OF \$456 MILLION IN JAN-JUN 1978, ACCORDING TO PRELIMINARY DATA RELEASED BY THE GOB. EXPORTS (FOB) AMOUNTED TO \$1,103 MILLION IN JUNE AND CUMULATIVE \$5,844 MILLION IN THE FIRST SEMESTER. IMPORTS (FOB) WERE \$1,188 MILLION IN JUNE AND CUMULATIVE \$6,300 MILLION IN JAN-JUNE. IN 1977 BRAZIL'S BALANCE OF TRADE WAS SURPLUS \$242 MILLION IN THE FIRST SIX MONTHS. OVERALL EXPORTS IN JAN-JUN 1978 WERE 5.7 PERCENT LOWER THAN IN THE SAME PERIOD OF 1977, WITH BASIC COMMODITIES EARNINGS DOWN 26 PERCENT BUT IN LARGE PART OFFSET BY 31 PERCENT INCREASE IN EXPORTS OF INDUSTRIALIZED PRODUCTS. THE DETERIORATION WAS MAINLY ATTRIBUTABLE TO 50 PERCENT (\$1 BILLION) LOWER EXPORT RECEIPTS FROM COFFEE. OVERALL IMPORTS WERE 5.6 PERCENT HIGHER THAN IN THE FIRST SEMESTER OF 1977, OWING MAINLY TO INCREASED IMPORTS OF OIL AND WHEAT.

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2. RECORD LEVEL FOREIGN RESERVES-ACCORDING TO PRESS ACCOUNTS, BRAZIL'S GROSS FOREIGN EXCHANGE RESERVES REACHED A RECORD HIGH LEVEL OF \$8.2 BILLION AT THE END OF JULY 1978. AS YET UNDETERMINED AMOUNTS OF FOREIGN CAPITAL INFLOWS OFFSET THE TRADE DEFICIT AND DEFICIT IN THE SERVICES ACCOUNT AND RESULTED IN THE APPROXIMATELY \$1 BILLION INCREASE IN RESERVES SINCE THE END OF 1977. CENTRAL BANK AND FINANCE MINISTRY OFFICIALS HAVE CONFIRMED TO FINATT THAT

RESERVES HAVE SURPASSED \$8 BILLION. THEY ESTIMATE THAT GROSS CAPITAL INFLOWS THROUGH JULY AMOUNTED TO PERHAPS \$5 BILLION. THEY ALSO STATED THAT THE GOB ALREADY HAS SECURED FOREIGN BANK COMMITMENTS TO MEET GOVERNMENT AND GOVERNMENT GUARANTEED BORROWING REQUIREMENTS FOR CY 1978.

3. INFLATION MORE MODERATE IN JULY - GETULIO VARGAS FOUNDATION DATA INDICATE THAT THE RATE OF INFLATION AS MEASURED BY THE GENERAL PRICE INDEX (INTERNAL SUPPLY) WAS 2.8 PERCENT IN JULY COMPARED TO 3.6 PERCENT IN JUNE. WHOLESALE PRICES (WHICH ACCOUNT FOR 60 PERCENT OF THE GENERAL PRICE INDEX) ROSE 2.4 PERCENT IN JULY AND THE RIO COST-OF-LIVING INCREASED 3.7 PERCENT. THE MAIN FACTOR IN THE SLOWER INCREASE IN OVERALL PRICES WAS REDUCED PRESSURE FROM AGRICULTURAL PRODUCTS, WHOSE WHOLESALE PRICES INCREASED 1.4 PERCENT IN JULY COMPARED TO 5.0 PERCENT IN JUNE. DESPITE THIS IMPROVEMENT THE CUMULATIVE INCREASE IN THE OVERALL WHOLESALE PRICE INDEX IN CY 1978 REACHED 25.6 PERCENT AND EXCEEDED THE CUMULATIVE INCREASE IN CY 1977 FOR THE FIRST TIME (23.4 PERCENT IN JAN-JULY 1977). THE CUMULATIVE INCREASE WAS 26.9 PERCENT IN RIO COST-OF-LIVING AND 24.8 PERCENT IN THE OVERALL PRICE INDEX DURING THE FIRST SEVEN MONTHS OF 1978. THE CUMULATIVE ANNUAL RATES OF INFLATION THROUGH JULY 1978 WERE: GENERAL PRICE INDEX - 38.3 PERCENT; WHOLESALE PRICES- 37.9 PERCENT; RIO COST-OF-LIVING - 39.7 PERCENT.

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4. GOB ANNOUNCED AGRICULTURAL MINIMUM PRICES FOR 1978/79 - THE NATIONAL AGRICULTURAL SUPPLY COUNCIL ANNOUNCED AT THE END OF JULY THE NEW MINIMUM SUPPORT PRICES FOR AGRICULTURAL PRODUCTS FOR THE 1978/79 HARVESTS. THE AVERAGE READJUSTMENT ABOVE THE PRICES FOR 1977/78 WAS 33.5 PERCENT, COMPARED TO AN AVERAGE INCREASE OF 23.5 PERCENT LAST YEAR. PRODUCTS RECEIVING THE LARGEST INCREASES WERE: PEANUTS (41 PERCENT); RICE (40 PERCENT); CASTOR BEANS (40 PERCENT). THE MINIMUM PRICES FOR CORN INCREASED 38 PERCENT, FOR COTTON 35 PERCENT, AND FOR SOYBEANS 34 PERCENT. THE NEW PRICES REPRESENT A COMPROMISE BETWEEN THE MINISTRY OF AGRICULTURE PROPOSALS FOR GREATER INCREASE AND MINISTRY OF FINANCE PREFERENCES FOR SOMEWHAT SMALLER INCREASES. WHILE PREDICTABLY FARMERS ARE NOT WHOLLY SATISFIED WITH THE NEW STANDARDS, THEY GENERALLY ACKNOWLEDGE THE IMPROVEMENT OVER LAST YEAR'S ADJUSTMENT. THE NEW SUPPORT PRICES ARE EXPECTED TO PROVIDE ADEQUATE INCENTIVES FOR NEW PLANTING OF MOST CROPS, IN CONTRAST WITH 1977/78 WHEN AREA PLANTED IN CORN AND RICE FAILED TO INCREASE IN PART BECAUSE OF MINIMUM PRICES THAT WERE BELOW COSTS.

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